

AR26

Stuart House

Annual Report
1965

STUART HOUSE INTERNATIONAL LIMITED

DIRECTORS

Evelyn Bentley	<i>Secretary</i>	Toronto, Ontario
William Earle Gordon	<i>Executive</i>	Islington, Ontario
Earl William Hayne	<i>Executive</i>	Toronto, Ontario
John Bernard Joynt	<i>Management Consultant</i>	New York, N. Y.
Ivan Keats	<i>Accountant</i>	Scarborough, Ontario
Donald Gordon Lawson	<i>Investment Dealer</i>	Toronto, Ontario
Frank T. Sherk	<i>Executive</i>	Toronto, Ontario
John Stuart	<i>Executive</i>	Nassau, Bahamas
John Lyon Stuart	<i>Executive</i>	Islington, Ontario

CHIEF EXECUTIVE OFFICERS

<i>President</i>	John Stuart
<i>Vice-President</i>	John Lyon Stuart
<i>Treasurer</i>	Ivan H. Keats
<i>Secretary</i>	Evelyn Bentley
<i>General Sales Manager</i>	Earl W. Hayne

AUDITORS

Loftus A. Allen & Company	Toronto, Ontario
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BANKERS

The Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto and Calgary

STUART HOUSE INTERNATIONAL LIMITED
HEAD OFFICE, 66 RIVALDA RD., WESTON, ONTARIO

Maritimes Div. Office	Halifax, N.S.	Lewis Hue, <i>Manager</i>
Quebec Div. Office	Montreal, Que.	Joffre Couture, <i>Manager</i>
Ontario Div. Office	Weston, Ont.	Bill Harding, <i>Manager</i>
Prairie Div. Office	Winnipeg, Man.	Tom Lovatt, <i>Manager</i>
Pacific Div. Office	Vancouver, B. C.	Blair Coulter, <i>Manager</i>

SUBSIDIARY COMPANIES

Belt Manufacturing Company of Canada Limited	Weston, Ontario
Bradford-Penn Oil Limited	Toronto, Ontario
Daniels Seafoods, Inc.	Fort Myers, Florida
Stuart House Products Limited	Toronto, Ontario
Stuart House Products Inc.	Fort Myers, Florida
Tip-Top Canners Limited	Burlington, Ontario
West, Taylor, Bickle & Company Ltd.	Norwich, Ontario



THE PRESIDENT'S REPORT

TO OUR SHAREHOLDERS:

Your Company has maintained a remarkable pattern of growth, development and achievement since its beginning, as the John Stuart Sales Company, in 1936. We are pleased, then, that 1965, the 29th consecutive year of operations for your company or its predecessor, has provided new records in net sales and in total assets controlled.

SALES . . . Consolidated net sales for the fiscal year ended November 30, 1965 reached a new high of \$9,943,000. an increase of 26.3% over 1964.

As this report goes to press, we have our figures for the first three months' sales of 1966 and we are happy to report that at February 28th, we are showing an increase of 20.6% over the same period in 1965, for consolidated sales of \$2,090,873, as against consolidated sales of \$1,732,505 in the first quarter of 1965.

The addition of Belt Manufacturing Company of Canada Limited, which was acquired in 1965, has contributed materially to increased sales. This firm is one of Canada's leading manufacturers of school bags, ring binders, brief cases, wallets and tote bags. In view of the huge increases projected in the size of our school population over the next few years, we are confident that this wholly-owned subsidiary will continue to exert a strong influence on both sales volume and income.

EARNINGS . . . The net operating profit, after provision for income taxes and the deduction of minority interests in subsidiaries, increased to \$86,911 in 1965, as compared with \$56,246 in 1964.

The gross operating profit for this year was \$163,144, as compared with \$90,042 in 1964. Income taxes increased commensurately from \$22,688 in 1964, to \$71,254 in 1965.

There was a capital loss on the disposal of fixed assets amounting to \$9,255 in 1965, whereas in 1964 there was a capital profit of \$58,715 on the sale of buildings.

We should also point out that, due to unforeseen losses of revenue and certain non-recurring expenses which were absorbed during the fourth quarter, the full year's profits were not as great as your directors had expected at the end of the third quarter.

Specifically, since a necessary revision in the method of determining inventory values in our newest subsidiary had increased our gross profit by \$65,000, we decided to use this advantage to absorb certain non-recurring costs, which finally totaled some \$75,800. These costs included writing off a portion of the stock issue expenses incurred in 1964, as well as losses on product changes and inventory write-downs.

In addition, we moved the Bradford-Penn operation from its outdated facilities in Toronto to one of the buildings at our Tip Top Canners plant in Burlington. This resulted in a capital loss on the disposal of the old building, and involved both the expense of moving and the necessary loss of production time. In fact, sales by Bradford-Penn for the fourth quarter showed a decrease of over \$400,000, when compared with the same period in 1964.

However, both the absorption of the non-recurring costs, and the move of the Bradford-Penn plant, are

continued . . .

THE PRESIDENT'S REPORT CONT'D.

steps that will put us in a position to show greater profits in the future. The non-recurring costs had to be absorbed some time and now they are behind us. The move of the Bradford-Penn plant has increased capacity, improved efficiency of operations, and will effect a considerable saving in overhead as we were able to accommodate the entire operation within the existing buildings.

DIRECTORS . . . During 1965, two of our directors agreed to extend their help and advice by acting as Director-Consultants and undertaking special work for the company. Both Mr. W. E. Gordon and Mr. Frank T. Sherk have been most helpful in this capacity.

ANNUAL MEETING . . . The annual meeting of our shareholders will be held this year at our Head Office on May 20th, at 9:30 a.m. daylight saving time.

MARKETING . . . All Stuart House products are marketed in Canada through Stuart House International Limited, except those of Belt Manufacturing Company which has established itself as an important supplier in its field.

As planned, we did not greatly expand our product line during 1965. Instead, we strengthened our sales position through more aggressive promotional methods and national advertising.

Also, we have stressed the quality of our products and have contracted with a local food laboratory to sample and test all lines produced at our plants each day. This policy has been instrumental in our acquiring four new contracts to package products for other Canadian merchandisers. These contracts are important to us because they absorb unused capacity without requiring additional investment, thus helping to reduce the overhead costs of producing our own products.

In addition to the domestic market, we are represented in many Caribbean countries and in the United States. Our volume of export shipments continues to grow.

OUR FUTURE . . . We are currently building a new warehouse in Weston covering 40,000 square feet. We are also constructing a railway siding at this warehouse so that we will be serviced by rail in addition to our regular trucking service. This increased warehouse space will add greatly to our efficiency for the future, and certainly is imperative to our future growth.

We have just completed a contract with the Gold Medal Candy Corporation of America whereby Stuart House has acquired, under licence, the Canadian rights to the candy items presently being produced in America by the Bonomo Candy Division of Gold Medal Candy Corporation. This operation is being set up in our Tip Top plant at Burlington, so that we can take further advantage of the existing plant facilities. At the same time, Bonomo Turkish Taffy will give us a potentially important product line in the growing Canadian candy market.

At Belt Manufacturing, we are presently installing new high speed equipment in order to increase production capacity and reduce unit costs in that subsidiary.

SUMMARY . . . Acquisitions completed in the last three years have certainly added greatly to our current volume, and give us an even greater potential for continued sales increases in the years ahead. In fact, we have expanded rather quickly in this three year period, and have made a considerable investment in new products; either through acquisition or product development.

However, now that this expanded product line is established, we can certainly look to the future with confidence. By maintaining quality, improving distribution and fighting increased costs, we shall use 1966 to enhance profits, to consolidate our position, and to ready ourselves for opportunities in the future.

On behalf of the Board of Directors,

JOHN STUART
President

SOURCE AND APPLICATION OF FUNDS

for the Year Ended November 30, 1965

Funds were provided by:

Net profit	\$ 86,911
Amounts charged to net profit which did not require cash outlays	
Depreciation	\$80,930
Minority interest	4,979
Amortized stock issue expenses	12,290
Deferred income taxes – Note 2	3,500
	101,699
Instalments received under Employees' Stock Purchase Plan	5,680
Proceeds on sale of capital stock	2,580
Net working capital of subsidiary at time of acquisition	387,695
Principal payments on the agreement of sale and mortgages receivable	41,069
Sale of fixed assets	15,145
Decrease in working capital	330,250
	<hr/>
	\$971,029

Funds were used for:

Additional investment in subsidiaries	\$652,810
Increase in equity of cash surrender value of life insurance	6,341
Retirement of long-term liabilities including current maturities	104,378
Agreement of sale taken back on sale of fixed assets	12,000
Purchase of fixed assets	73,563
Dividends paid by Stuart House International Limited to its shareholders	121,937
	<hr/>
	\$971,029

CONSOLIDATED BALANCE S

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ASSETS

Current Assets

	1965	1964
Cash	\$ —	\$ 63,910
Accounts receivable less allowance for doubtful accounts	1,108,748	808,845
Due on closing of sale of building	—	274,000
Inventories of raw material, finished goods and supplies valued at lower of cost and market — Note 2	2,087,363	1,513,647
Income taxes receivable	3,529	—
Prepaid expenses	31,978	19,731
Total Current Assets	<u>\$3,231,618</u>	<u>\$2,680,133</u>

Investments

Equity in cash surrender value of life insurance	\$ 52,944	\$ 46,603
First mortgage, 6%, due 1966	—	28,431
Second mortgage, 6%, due 1974	64,645	71,800
Agreement of sale, 6%, due 1972	6,517	—
Total Investments	<u>\$ 124,106</u>	<u>\$ 146,834</u>

Fixed Assets

Land, buildings, machinery and equipment — at cost	\$ 1,015,932	\$ 768,317
Less: Accumulated depreciation	587,556	355,688
Net Fixed Assets	<u>\$ 428,376</u>	<u>\$ 412,629</u>

Other Assets

Stock issue expenses	\$ 17,500	\$ 29,790
Excess of cost of subsidiaries over net book value of their assets	282,689	80,774
	<u>\$ 300,189</u>	<u>\$ 110,564</u>
	<u>\$4,084,289</u>	<u>\$3,350,160</u>

APPROVED ON BEHALF OF THE BOARD

JOHN L. STUART
IVAN H. KEATS

DIRECTORS

AUDITORS' REPORT

TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of STUART HOUSE INTERNATIONAL LIMITED and its Subsidiary Companies as at November 30, 1965 and the statements of consolidated profit and loss and earned surplus for the year ended on that date. Our examination of the financial statements of Stuart House International Limited and those subsidiaries of which we are the auditor, included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of one of the foreign subsidiaries.

In our opinion, the accompanying consolidated balance

NATIONAL LIMITED

THE LAWS OF CANADA)

RY COMPANIES

ET AS AT NOVEMBER 30, 1965

figures for 1964)

LIABILITIES

Current Liabilities

	1965	1964
Bank overdraft	\$ 42,074	\$ -
Bank loans - secured	1,525,000	835,000
Accounts payable and accrued liabilities	1,074,256	941,552
Income taxes payable	-	17,543
Note payable	60,000	25,500
Total Current Liabilities	<u>\$2,701,330</u>	<u>\$1,819,595</u>

Deferred Credits - Note 3

Deferred income taxes payable	\$ 8,300	\$ -
Employees' Stock Purchase Plan	5,680	-
	<u>\$ 13,980</u>	<u>\$ -</u>

Long Term Liabilities

Loan payable, 6%, due 1966	\$ -	\$ 100,000
First mortgage, 5%, due 1967	6,040	10,418
	<u>\$ 6,040</u>	<u>\$ 110,418</u>

Minority Interest in Subsidiaries	\$ 127,325	\$ 142,832
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Shareholders' Equity

Capital Stock - Note 4

Authorized

100,000 Preferred Shares of \$8.00 par value each,
issuable in series

1,000,000 Common Shares without par value

Issued

22,785 6% Cumulative Redeemable Convertible		
Preferred Shares Series A (31,050 in 1964) ...	\$ 182,280	\$ 248,400
579,860 Common Shares (562,900 in 1964)	921,050	852,350
	<u>\$1,103,330</u>	<u>\$1,100,750</u>

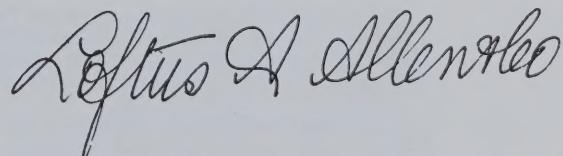
Earned Surplus	132,284	176,565
	<u>\$1,235,614</u>	<u>\$1,277,315</u>

Total Shareholders' Equity	\$4,084,289	\$3,350,160
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The attached notes form an integral part of these consolidated financial statements.

sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of the companies as at November 30, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change set forth in Note 2 to the financial statements, which change we approve.

Our examination also included the accompanying statement of consolidated source and application of funds which, in our opinion, when considered in relation to the aforementioned consolidated financial statements presents fairly the sources and applications of funds of the company and its subsidiaries for the year ended November 30, 1965.



CHARTERED ACCOUNTANTS

Toronto, Ontario, March 17, 1966

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at November 30, 1965

1. Principles of Consolidation

The consolidated financial statements include all the Subsidiaries, which are

	Jurisdiction in which organized	Ownership of Voting Stock
Stuart House Products Limited	Ontario, Canada	100.0%
Stuart House Products Inc.	Florida, U. S. A.	100.0%
Daniels Seafood Inc.	Florida, U. S. A.	55.2%
Tip-Tip Canners, Limited	Ontario, Canada	96.5%
West, Taylor, Bickle & Company Limited	Ontario, Canada	100.0%
Bradford-Penn Oil Limited	Federal, Canada	100.0%
Belt Manufacturing Company of Canada Limited	Federal, Canada	100.0%

On January 1, 1965, the Company acquired all of the outstanding shares of Belt Manufacturing Company of Canada Limited and, accordingly, it has been included in the consolidated financial statements for the first time.

Current assets, current liabilities, income and expense (other than depreciation) of foreign subsidiaries are included in the consolidated statements on the basis of U.S. \$1 = Can. \$1.075. Fixed assets, long term liabilities and depreciation of such companies are included on the basis of U.S. \$1 = Can. \$1.

The consolidated earned surplus includes the net earnings prior to and subsequent to the actual acquisition date of Stuart House Products Limited and Stuart House Products Inc. which were acquired in 1960 in a pooling of interests. The earnings of Daniels Seafood Inc., acquired in 1955, Tip-Top Canners, Limited and West, Taylor, Bickle & Company Limited, both acquired in 1963, Bradford-Penn Oil Limited acquired in 1964 and Belt Manufacturing Company of Canada Limited acquired in 1965 are included in the consolidated earned surplus from the date of acquisition only.

2. Inventories

One of the subsidiary companies has changed its method of determining the cost of finished goods inventory from estimated cost to actual cost. This adjustment to the closing inventory has resulted in an increase in the consolidated net income of the current year after income taxes of approximately \$31,200 (\$65,000 before income taxes).

3. Deferred Credits

INCOME TAXES

Income taxes have been deferred as a result of claiming capital cost allowance for tax purposes in excess of depreciation provided on the Consolidated Statement of Profit and Loss. Deferred income tax of \$3,500 was provided in 1965 and \$4,800 was provided by a subsidiary in 1964 prior to acquisition.

EMPLOYEES' STOCK PURCHASE PLAN

The Company has received instalments under an Employees' Stock Purchase Plan, the details of which are outlined in Note 4.

4. Capital Stock

The Preferred Shares Series A are redeemable after May 1, 1967 at \$8.48 per share, convertible prior to May 1, 1974 into common shares on the basis of 2 common shares for each Preferred Share Series A and non-voting except in certain circumstances. During the year, 8,265 of these shares were converted into 16,530 common shares thereby reducing the issued preferred shares. At November 30, 1965, 45,570 common shares were reserved for the conversion privileges attached to the preferred shares.

Under the terms of the Stock Option Plan, options have been granted to key employees of the company and its subsidiaries to purchase a total of 28,000 common shares. The right to exercise the options will accrue on various dates from 1967 to 1970 and terminate on July 31, 1970. Accordingly, 28,000 common shares have been reserved for the Stock Option Plan at November 30, 1965.

The company has established a Stock Purchase Plan for the purchase of common shares by the employees of the company and its subsidiaries. Pursuant to this plan, payment for the shares shall be made either in full or by equal monthly instalments over a three-year period. During the year, 430 shares were paid in full and issued. At November 30, 1965, 7,540 shares were reserved for the purchase of shares by instalment.

5. Contingent Liabilities, Commitments, etc.

Long term leases on properties leased by the company and its subsidiaries aggregate \$58,200 per annum for various terms to 1987.

One of the subsidiary companies is contingently liable as at November 30, 1965 on a claim made by a supplier in the amount of \$10,500.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

for the Year Ended November 30, 1965
(with comparative figures for 1964)

Sales	1965	1964
Warehouse sales	\$7,994,134	\$6,180,025
Commission sales	1,948,891	1,692,213
	<u>\$9,943,025</u>	<u>\$7,872,238</u>
Gross margin on warehouse sales		
(after depreciation of \$51,640 in 1965 and \$70,726 in 1964)	\$1,906,053	\$1,505,842
Commission income	116,464	102,481
	<u>\$2,022,517</u>	<u>\$1,608,323</u>
Selling and Administrative Expenses	1,859,373	1,518,281
including the following	1965	1964
Listing fees and expenses	\$ 10,713	\$ —
Amortized stock issue expenses	12,290	—
Depreciation	29,290	35,368
Executive salaries	58,556	47,155
Legal	12,713	12,288
Mortgage interest	719	12,543
Directors' fees	2,700	400
	<u>\$126,981</u>	<u>\$107,754</u>
Income taxes	\$ 163,144	\$ 90,042
	<u>71,254</u>	<u>22,688</u>
Minority interest share of the profits of subsidiary companies	\$ 91,890	\$ 67,354
Net Profit	<u>4,979</u>	<u>11,108</u>
	<u>\$ 86,911</u>	<u>\$ 56,246</u>

CONSOLIDATED EARNED SURPLUS

for the Year Ended November 30, 1965
(with comparative figures for 1964)

1965	1964
Balance — Beginning of year	\$ 176,565
Profit or (Loss) on sale of Fixed Assets	(9,255)
	<u>\$ 167,310</u>
Net Profit	<u>86,911</u>
	<u>\$ 254,221</u>
Dividends Paid	
Preferred	\$ 12,668
Common	109,269
	<u>\$ 121,937</u>
Balance — End of year	<u>\$ 132,284</u>
	<u>\$ 176,565</u>

The attached notes form an integral part of these consolidated financial statements.



STUART HOUSE PRODUCTS

Aluminum Foil Products:—

Stuart House Foil Wrap
Stuart House Burner Savers
Stuart House Pie N Picnic Plates
Stuart House Broiler Trays
Stuart House Baking Cups
Big Top Foil Wrap
Thrift Pak Foil Wrap

Paper & Film Products:—

Stuart House Wax Wrap
Stuart House Shelf Paper
Stuart House Wrap N Liner Paper
Plastic Garbage Bags
Save-it Plastic Food Bags
Stuart House Plastic Wrap
Stuart House Freezer Paper

Food Products:—

Li'l Abner Fruit Drinks
Montserrat Fruit Juices
Stuart House Drink Powders
Stuart House Cocktail Mixes
Stuart House Cranberry Sauces
Stuart House Fruit Nectars
Stuart House Gravy Mixes
Stuart House Soup Mixes
Tip Top Canned Fruits

Broom & Mop Products:—

Mop-it Sponge Mops
Stuart House Brooms
West, Taylor, Bickle Brooms & Whisks
West, Taylor, Bickle Damp Mops
Dustmaster Dust Mops
Gold Tassle Curling Brooms

PRINCIPALS' PRODUCTS

In addition to manufacturing and selling its own products, the company also acts as a manufacturer's agent representing many leading companies in the sale of their products, including:—

Bonomo Candy Division
Gold Medal Candy Corporation
Brooklyn, New York
(Bonomo Turkish Taffy)

Chap Stick Company
Lynchburg, Virginia
(Chap Stick & Chap Ans)

Dietetic Food Company Inc.
Brooklyn 7, New York
(DIAMEL Dietetic Foods)

Dr. Grabow Pre-Smoked Pipes
Greensboro, North Carolina
(Briar Pipes)

W. T. Hawkins Limited
Belleville, Ontario
(Cheezies, Popcorn, Potato Chips)

Larus & Brother Company, Inc.
Richmond 17, Virginia
(Edgeworth, Sabot, Holiday Pipe Tobaccos)

Leeds Candy Corporation
Montreal, Quebec
(Luden's Cough Drops)

Lewis-Howe Company
St. Louis 2, Missouri and Windsor, Ontario
(Tums & Nature's Remedy)

Matlow Brothers Limited
New Mills, England
(English Confectionery)

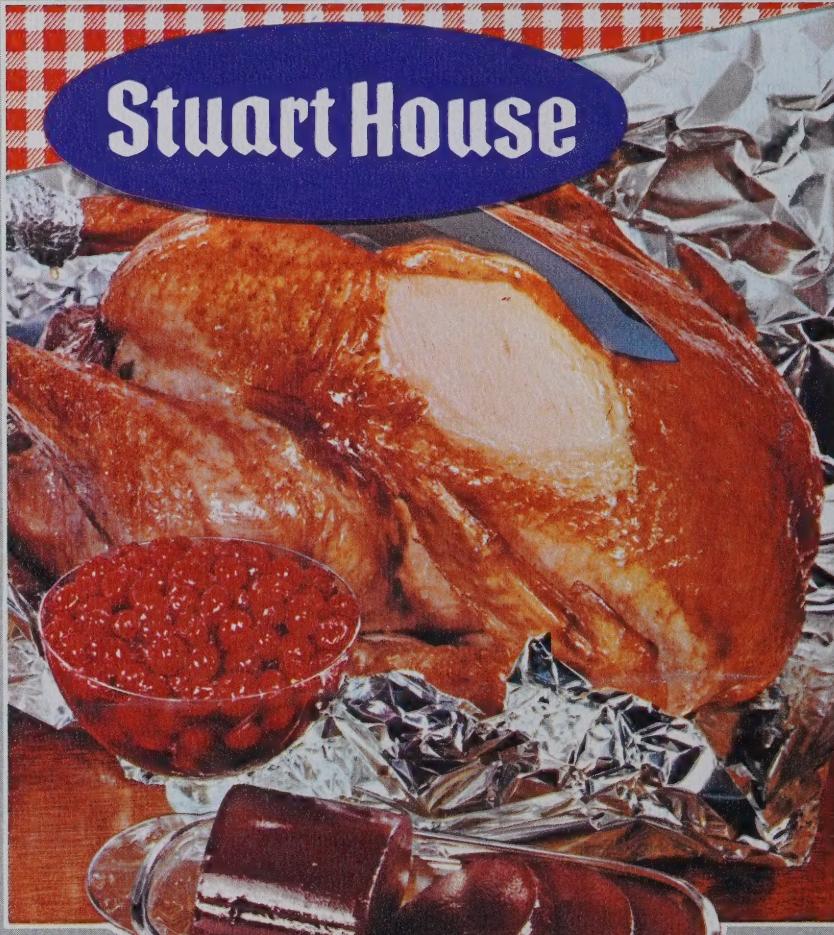
Poul Petersen Cigar & Tobaksfabriker
Horsens, Denmark
(Royal Tivoli Tobacco)

Stanwell Briar Pipes
Kyringe, Denmark
(Briar Pipes)

Sweets Company of America, Inc.
Hoboken, New Jersey
(Tootsie Pops & Tootsie Rolls)

Jenny Lind Candies
Toronto, Ontario
(Jenny Lind, Pattersons Confectionery)





Stuart House

STUART HOUSE INTERNATIONAL LIMITED